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Diversify, Diversify and Diversify: The

Renaissance Of UK Industry

Dr Geeta Lakshmi, Senior Lecturer in Finance in the Lincoln Business School, considers the role manufacturing will play in the UK's economic recovery: Yesterday, the debutante bail-out bond for the Euro-zone was hailed as a hit for the fashion parade that might follow. Japan's interest of 20% in the bond signals that the rest of [...]

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Yesterday, the debutante bail-out bond for the Euro-zone was hailed as a hit for the fashion parade that might follow. Japan's interest of 20% in the bond signals that the rest of the world might have hope for the future of Europe.

Where does the UK stand in all this? The yield of the bail-out bond is currently lower than the yield of the UK bond. This signals the relatively higher trust the market has in the bail-out nations rather than in the UK. We have learnt that the financial world are fickle stewards and are perfect examples of the problems of agency theory (serve thyself before serving the principal stakeholders viz. the nation, the public and the shareholders). What is clear is that we can never again depend exclusively on the financial ramparts to lift our economy to lofty heights.

The two-pronged tongue of financial wealth-makers at best generates manna for the economy in boom times but its losses in bad times grossly exceed that wealth generation. Nonetheless the fervid, mob-like zeal to stick the heads of financial chief executives on a pike is also disquieting, especially as the banks have tried to come back, notably Northern Rock and Lloyds. A moment of calm introspection reveals that what we need is a clear head on our shoulders. Banks will continue to be the backbone of the economy but should never lull us again into taking over the brain. The recent talk of reverting back to divesting the two arms of retail and investment banking and working them independently signals the change that might follow in UK's financial landscape.

Enter the quiet unsung heroes: manufacturing and farming. UK manufacturing has come back unannounced, which has belied vituperative pundits who had consecrated it and embraced emerging economies' exports. The "too big to fail" policy should apply to manufacturing as global demand will increase not only for copper and energy but also for food and manufacturing. The former is leading worrying inflation in both India and China and the latter was the past bulwark of the British economy.

Perhaps the moment has arrived for the UK to shrug off the dust-covers of both these industries and unveil its offerings with its attractive exchange rates along with education as a major service industry to offer a triad attack on poor growth. Last December's figures regarding manufacturing were encouraging. After all, in the new "well being" world of David Cameron, a large number of electronic cars

are needed not vast amounts of electronic money! Thus in business terms the Tobin's Q (market value to replacement value) would hail "make-it rather than buy-it". The problem for manufacturing is that it is not as resilient as retail or financial services; but this might prove to be the silver lining in the wake of a future cloud. However, this manufacturing must not be a carbon copy of the cheap exports of the emerging markets. They must be durable (after all the world had got a tad fed up of disposable living) and innovative. Tax cuts in investment in manufacturing and apprentices' jobs should be considered after the public finances are clawed back.

The zeal of the Government to show that is more prudent than Mr Gordon "Prudence" Brown is commendable but it risks backfiring if the cuts eviscerate rather than simply cut the bloat. Reports are filtering through that the manufacturing growth of China and Singapore is slowing and this is surely the carpe diem moment for UK.

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